

**Investigation No. 332-491**  
**China: Government Policies Affecting**  
**U.S. Trade in Selected Sectors**

On behalf of  
IPSCO, a Division of SSAB

October 30, 2007

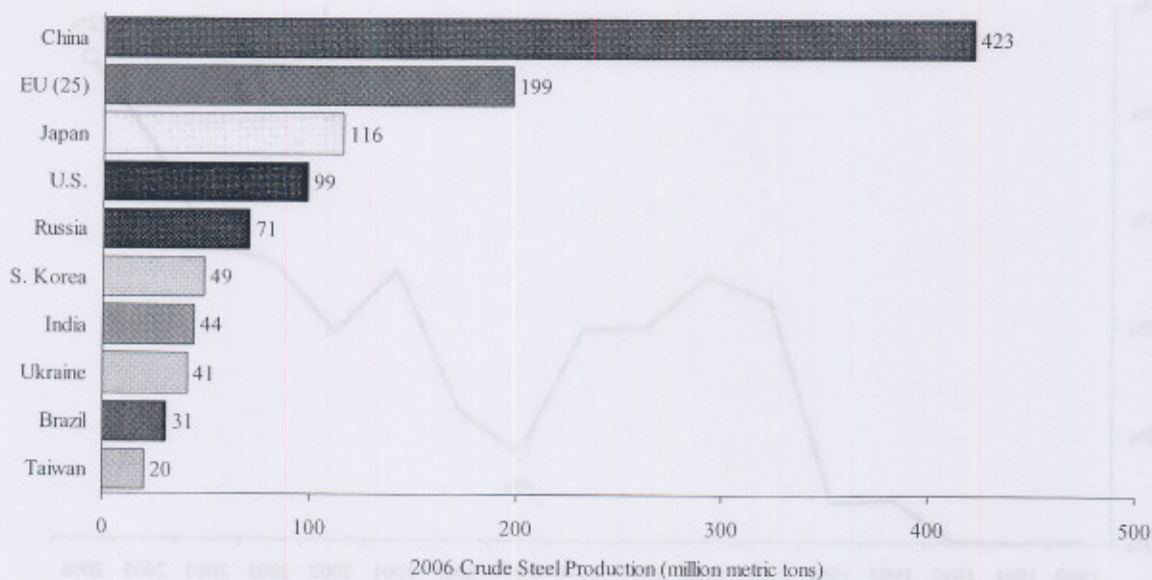
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## The Challenge From China

- China has established enough OCTG capacity to supply its own domestic market
- China is now the world's largest OCTG exporter
- China is achieving major market penetration in the U.S. and Canadian OCTG markets
- In the next 3 years, China will add enough OCTG capacity to supply two-thirds of current U.S.-Canadian demand
- There are no major alternative markets abroad capable of absorbing growing Chinese OCTG output
- Much of China's new OCTG capacity will be directed at the U.S./Canadian market
- Absent some change in policy in the United States and/or China, state-backed Chinese OCTG will likely further displace U.S. and Canadian production
- If drilling activity in the U.S. slows or levels off, the impact would be more severe

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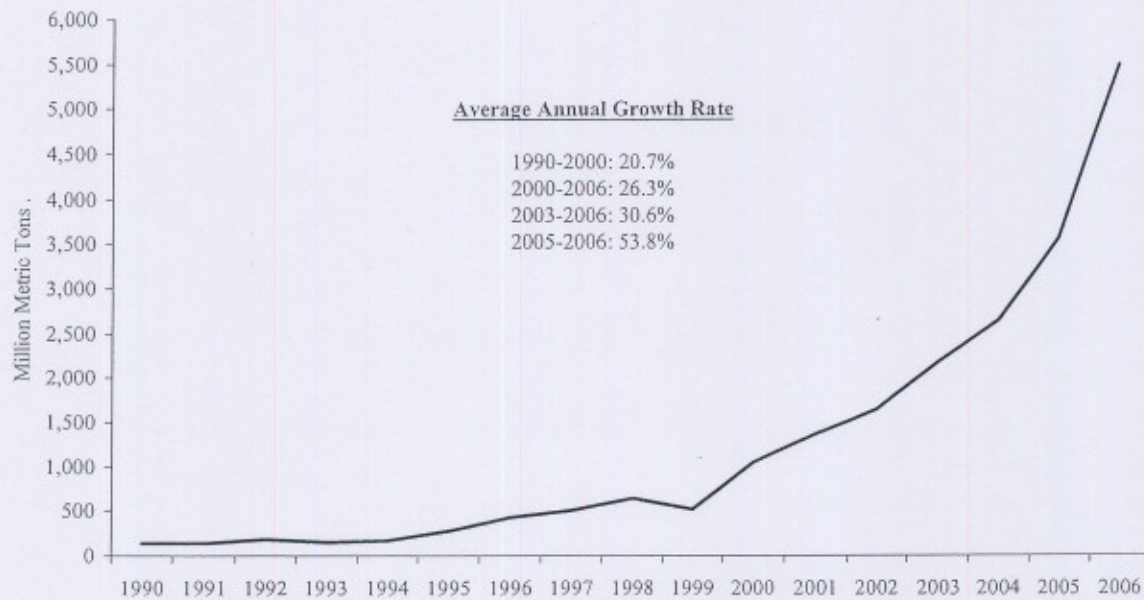
## China's Industrial Policy in Steel: China Now Produces More Steel Than the U.S., the EU and Japan Combined



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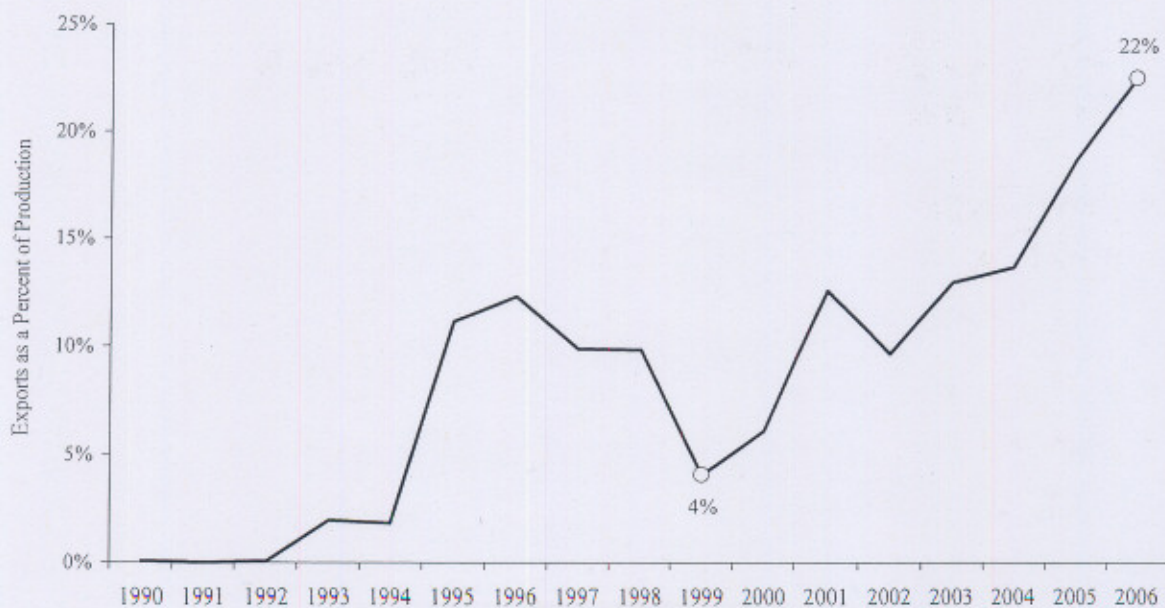


## Chinese Production of OCTG Has Accelerated Rapidly in Recent Years



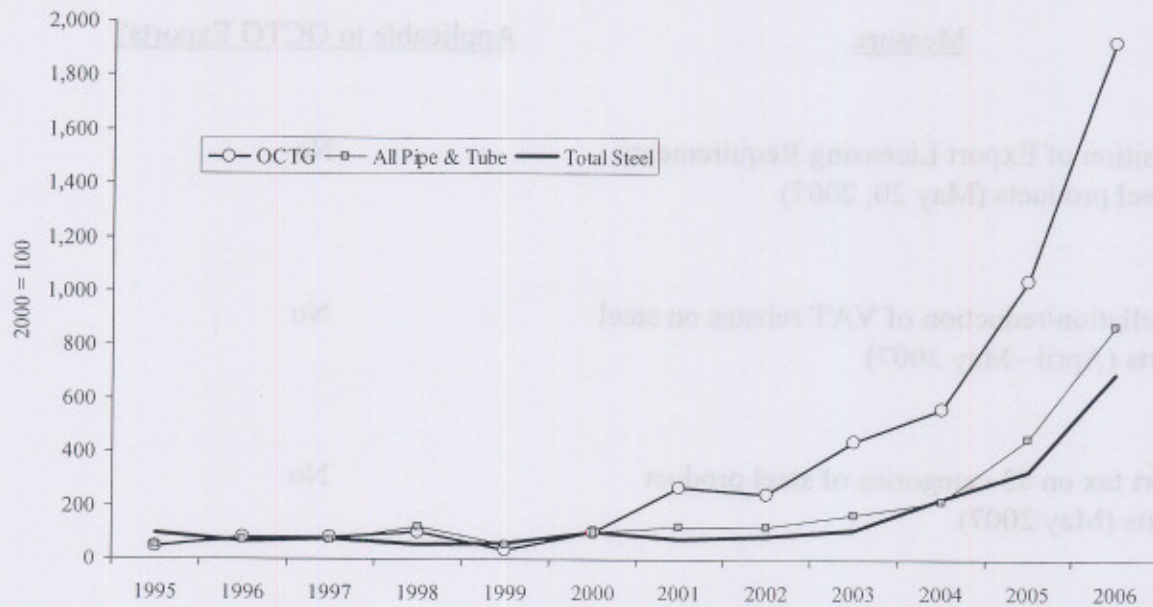
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## The Share of Chinese OCTG Production That Is Exported Has Been Increasing Steadily Since 1999



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## Chinese OCTG Export Growth Has Been Significantly Higher Than the Growth in All Pipe and Tube Exports As Well As All Finished Steel Exports Since 2000



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## China Is Implementing Measures to Curtail Some Steel Exports But Not High Value Added Products Like OCTG

“[The government will impose export tariffs] on primary products, including steel billets and others, and some steel materials with low value-added so as to further reduce the production and export of high energy-consuming and high polluting products [and] continue to keep export tax rebates at an appropriate level for high-end steel products and special steel products.....”

Vice Premier Zeng Peiyan in *Gangtie Caigou*  
Wang, April 27, 2007

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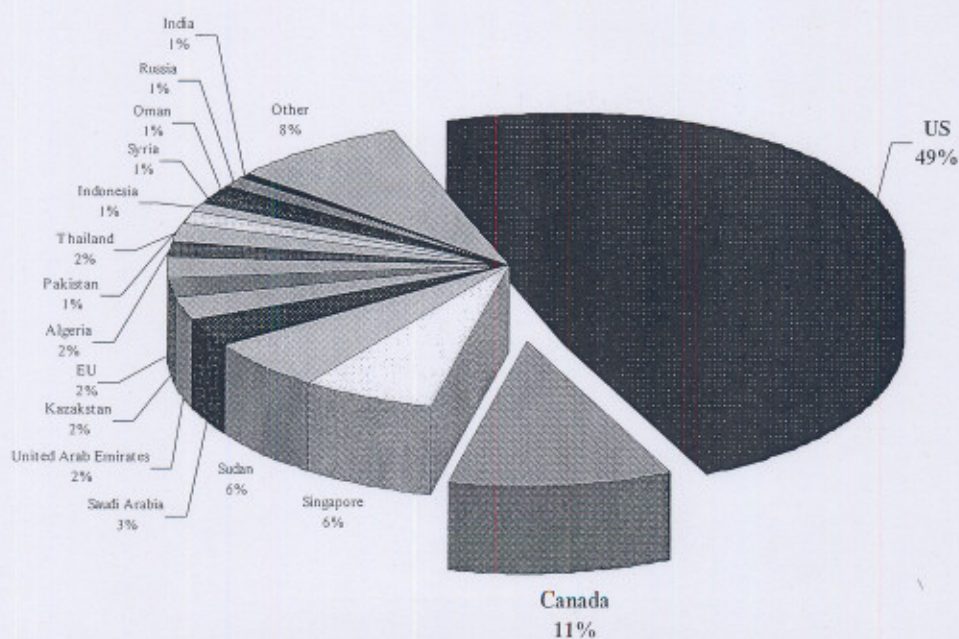


## Chinese OCTG Exports Have Been Exempted From Recent Measures to Curtail Steel Exports

<u>Measure</u>	<u>Applicable to OCTG Exports?</u>
Imposition of Export Licensing Requirements for steel products (May 20, 2007)	No
Cancellation/reduction of VAT rebates on steel exports (April –May 2007)	No
Export tax on 83 categories of steel product exports (May 2007)	No

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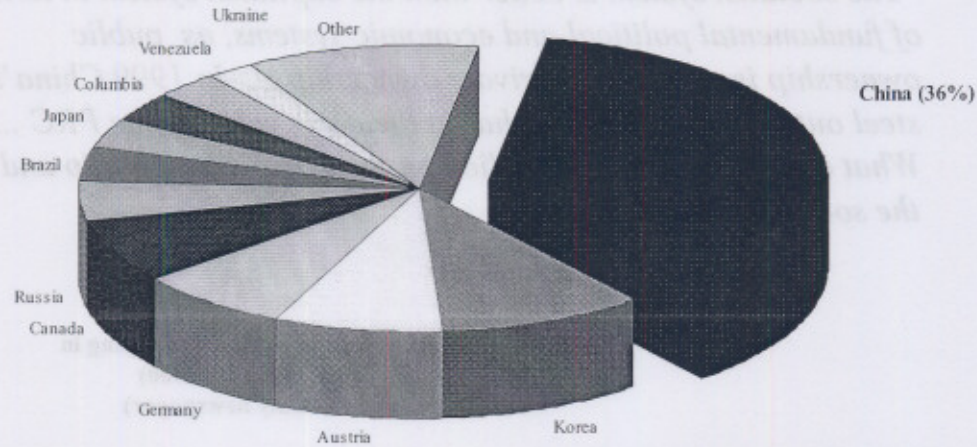
### The Export Target Is Here: 60 Percent of Chinese OCTG Exports Were Shipped to the United States and Canada in 2006



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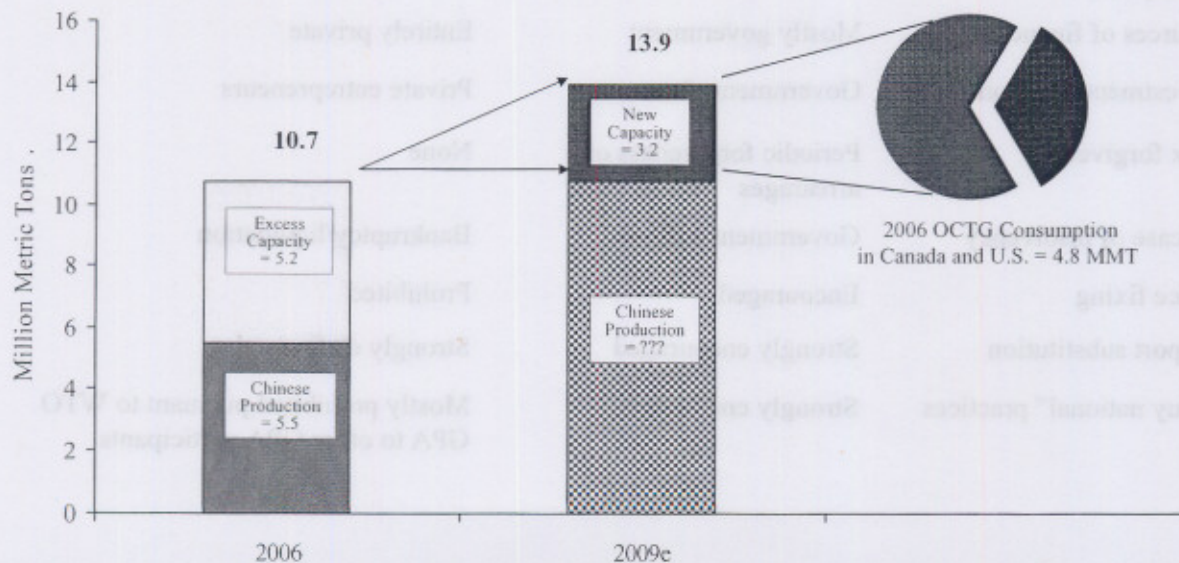


## The United States is the Prime Target of Chinese Policy -- China Was the Largest Source of U.S. Imports of OCTG in 2006



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## Additional Capacity Is Being Added By China in the Next Three Years That Will Equal Two-Thirds of Current U.S. and Canadian Consumption



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## The Expansion of China's Steel Industry Is Cited as an Example of the Superiority of Communism Over Capitalism

*"The socialist system is better than the capitalist system in terms of fundamental political and economic systems, as public ownership is superior to private ownership ... In 1999 China's steel output was 786 times that in the early years of the PRC ... What did we rely on? We relied on the Party's leadership and the socialist system."*

Marxist journalist Ren Zhongping in  
*Renmin Ribao* (June 28, 2000)  
(Government daily newspaper)

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## Systemic Comparisons -- OCTG Industry

	<u>China</u> – "Socialist System"	<u>US/Canada</u> – Market Economies
Ownership of OCTG Enterprises	Mostly government	Entirely private
Sources of financing	Mostly government	Entirely private
Investment decisions	Government planners	Private entrepreneurs
Tax forgiveness	Periodic forgiveness of arrearages	None
In case of insolvency	Government bailouts	Bankruptcy/liquidation
Price fixing	Encouraged	Prohibited
Import substitution	Strongly encouraged	Strongly disfavored
"Buy national" practices	Strongly encouraged	Mostly prohibited pursuant to WTO GPA to other GPA participants

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## **China's OCTG Producers Were Established as an Expression of State Policy**

“The State decided to invest RMB 12.3 billion [\$1.4 billion] in Tianjin to construct a seamless steel tube base focusing on oil casing.... Why establish an enterprise with the annual capacity of 500,000 metric tons of tubing? We recognize that 500,000 metric tons are essential, and will bring glories to the country.”

*Tianjin Gangguan*

Issue No. 2, 1995

“The Yantai Steel Tube Factory West Branch was established on February 10, 1992 to carry out the spirit of the central [government]....”

*Zhong Zi Ping Bao Zi*

No. 32, 2003

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## **China's Main OCTG Producers Have Enjoyed the Close Support of the Senior Leaders of the Communist Party and the Central Government**

“The [Communist Party] Central Committee and State Council have always been very concerned with Tianjin Pipe Corporation's development. Jiang Zheming himself has visited there three times and given much advice. Li Peng, Zhu Rongji, Li Ruihuan, Hu Jintao, and other central committee leaders have come onsite many times to give guidance and support in numerous ways. Under the Premier and President's direct support, the steel pipe company underwent a debt-equity swap and gained tremendous success. This is a major strategic move, and it enabled an historic turning point in the steel pipe corporation's development; it was instrumental allowing the steel pipe corporation to develop rapidly.”

Speech by Zhang Lichang,

Secretary of Tianjin Municipal

Central Committee, Communist Party

(June 28, 2002)

Tianjin Municipal Government Website

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## **Tenth Five Year Plan in the Metallurgy Industry (2001-05)**

- Create a group of “large-scale” steel enterprises [4 million tons or more] capable of producing “high technology content and high value added products.”
- Further develop capability to make “high strength and high causticity-resisting petroleum steel pipe for exploration of western oil and gas fields.”
- “[We shall] develop products such as high-strength, crush-resisting and corrosion-resisting petroleum tube and high-pressure boiler tube, etc.”

- State Economic and Trade Commission

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## **Provincial Five Year Plans Emphasize Promotion of OCTG Producers and Expansion Projects**

“[We shall] fully develop the advantages of Baosteel, encourage Baosteel Group Corporation to be an iron and steel enterprise with the largest scale, the highest modernization level, and strongest market competitiveness in China... [We shall] focus on development of steel for... petroleum tubes....”

Shanghai Municipal Government  
Tenth Five-Year Plan (2001-2005)

“[We shall] accelerate the construction of important projects including.... the seamless steel tube [project] of Hengyang Tube...”

Hunan Province  
Eleventh Five-Year Plan  
(2006-2010)

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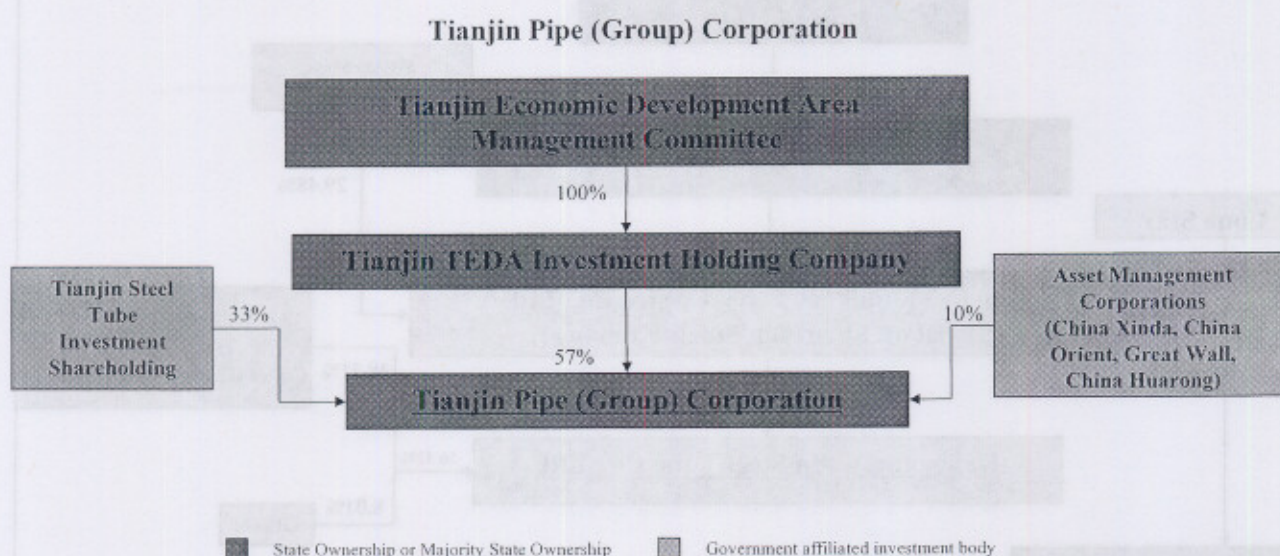


## China's Top OCTG Producers Are Government-Owned

Rank	Producer	Annual OCTG Production 2006 (1,000 metric tons)	Majority Owner
1.	Tianjin Pipe Group Corporation	1,100	Municipal Government of Tianjin (TEDA)
2.	Baosteel Group	435	SASAC (central government)
3.	Hengyang Valin	380	SASAC (central government)
5.	Pangang Group Iron and Steel	243	SASAC (central government)

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## Ownership Structure of Tianjin Pipe (Group) Corporation

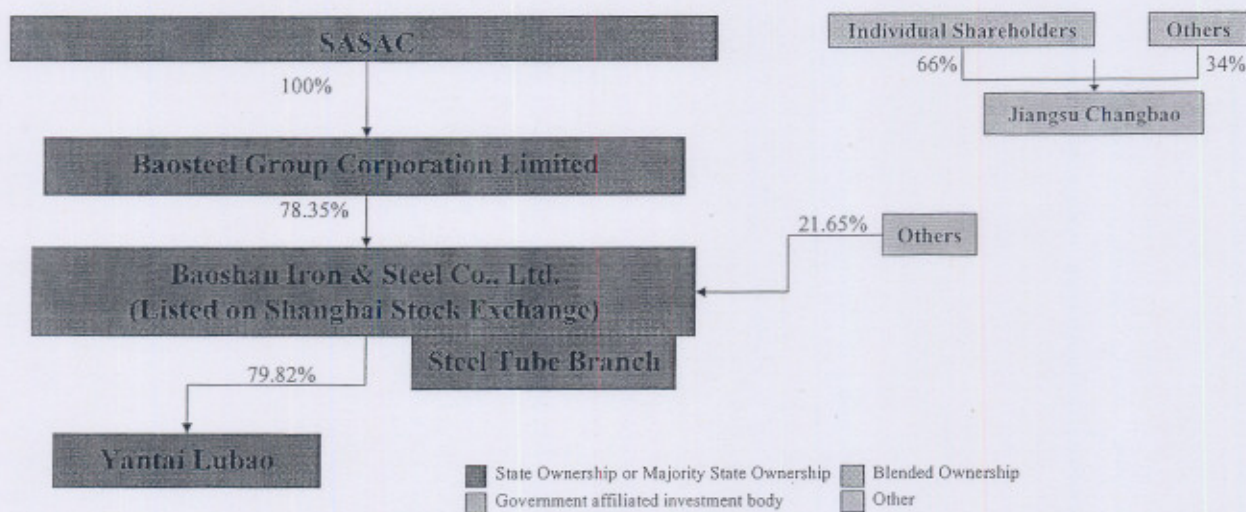


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## Ownership Structure of Baoshan OCTG Companies

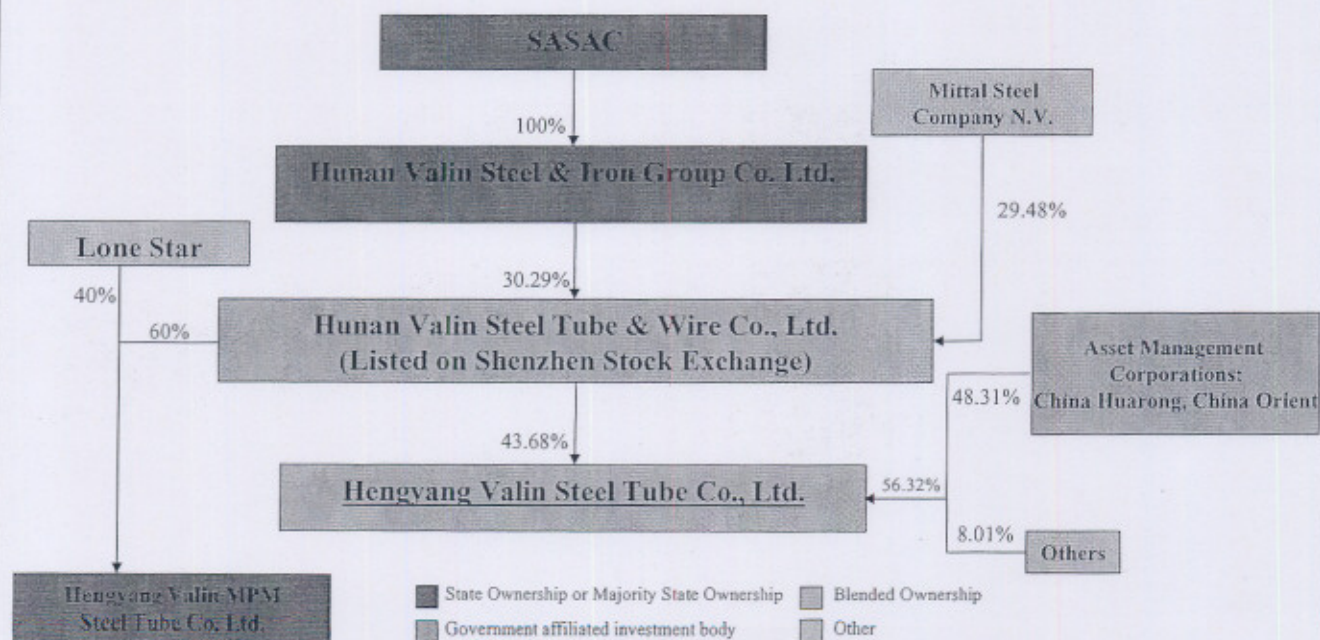
Baoshan Iron & Steel Co., Ltd. Steel Tube Branch  
Yantai Lubao Steel Tube Company Limited



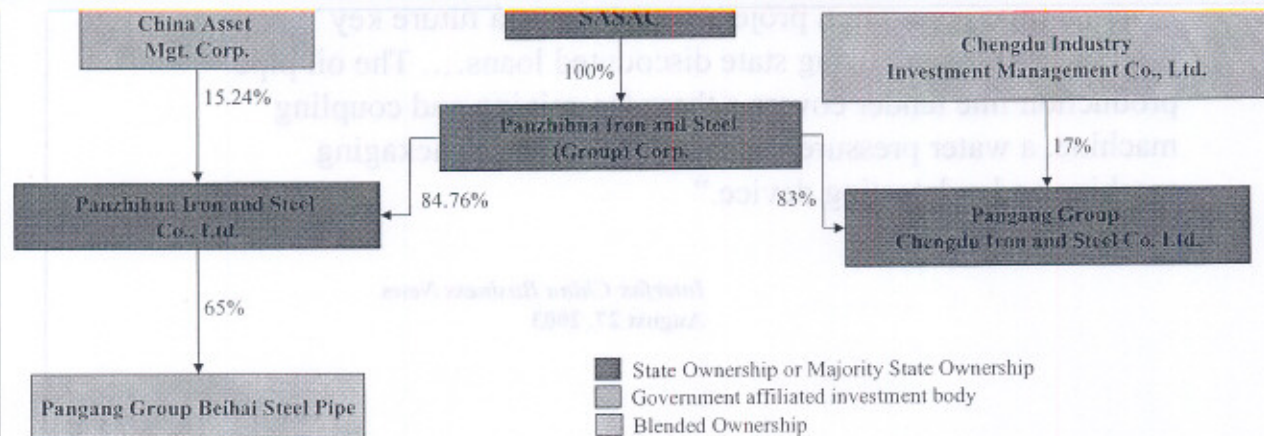
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## Ownership Structure of Hengyang Valin Companies

Hengyang Valin Steel Tube Co., Ltd



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## China's OCTG Producers Are Backed with Massive Government Support

- Low interest loans from government “policy” and “commercial” banks
- Periodic write-offs of outstanding debt
- Loans from government “investment trusts”
- State Key Technology Renovation Project Fund
- Various tax rebates, VAT exemptions and write-offs of arrearages

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## **Government Banks Have Channeled Preferential Loans to Chinese OCTG Producers**

“The oil pipe production project will serve as a future key project for Baogang using state discounted loans.... The oil pipe production line tender covers a threader, mixing and coupling machine, a water pressure tester, a pipe cutter, a packaging machine and a detecting device.”

*Interfax China Business News*  
August 27, 2003

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## **Chinese Government Banks Are Providing Massive “Policy Based” Lines of Credit to Enterprise Groups that Include China’s Major OCTG Producers**

“The Export-Import Bank of China and the Shanghai Baogang Group have signed the Cooperation Agreement of Export Credit Loans to support International Business. The amount is 10 billion yuan [\$1.2 billion] that will be mainly used to implement the strategy for Baogang to “Walk Out” and develop internationalized business. The Bank will provide the export credit loans with low interest rates and long-term maturity.”

*Guoji Jinrong Bao*  
(September 10, 2004)

“On September 20 [2005] Angang and the China Development Bank signed the Cooperation Agreement of Long-Term Strategy for Development Finance, in which Angang would provide 18 billion yuan [\$2 billion] of policy-based loans to the Angang Group in support of Angang getting into the world’s top 500 enterprises. And 10 billion yuan [\$1.2 billion] out of the 18 billion would be soft loans.”

*Liaoning Qiye Gaige Wang*  
(September 20, 2005)

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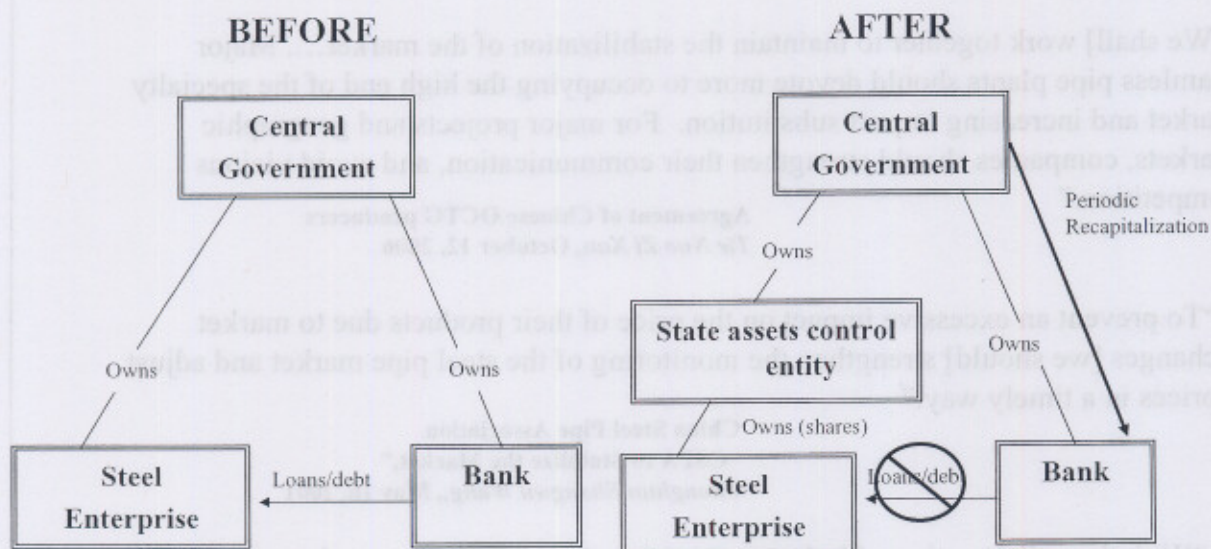
## Central And Regional Governments Have Periodically Reduced Debt of Chinese OCTG Producers

“On December 31 [1998] the major leaders of the municipal committee and the municipal government had a special research on the debt issues of Big Seamless, and decided that in 1999 [we shall] mobilize all the strength in the city, back to the [RMB] 3-4 billion debt of the company, reduce the long term loan balance of the company to [RMB] 3-4 billion, create conditions for the final benign cycle, and make the pipe corporation an important base for the development of the metallurgical industry in Tianjin.”

*Tianjin Gangguan*  
Issue No. 1, 1999

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### Schematic Depicting Debt-Equity Swap



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## Debt-Equity Swaps

“[I]n 1999, our country turned Big Seamless’s [Tianjin Pipe’s] debt into equity, allowing Big Seamless to throw away its historical burden, and march ahead without any debt.”

*Bei Fang Wang*

(December 25, 2004)

<http://www.news.enorth.com.cn/system/2004/12/24/000931403.shtml>

“The state leaders, upon inspection of Pangang [Iron and Steel Company] decided to use debt-for-equity swaps to help Pangang out of its financial difficulties.”

*Economic Observer Newspaper*

(November 7, 2004)

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## China’s OCTG Producers Collaborate to Stabilize the Domestic Market and Maintain Price Stability Stimulating Excess Capacity

“[We shall] work together to maintain the stabilization of the market.... Major seamless pipe plants should devote more to occupying the high end of the specialty market and increasing import substitution. For major projects and geographic markets, companies should strengthen their communication, and avoid vicious competition.”

*Agreement of Chinese OCTG producers*

*Tie Nuo Zi Xun, October 12, 2006*

“To prevent an excessive impact on the price of their products due to market changes [we should] strengthen the monitoring of the steel pipe market and adjust prices in a timely way.”

*China Steel Pipe Association*

*“CSPA to Stabilize the Market,”*

*Zhonghun Shangwu Wang,, May 16, 2001*

“With the collaboration of industry groups and government agencies, effort will be made to maintain prices.”

*CSPA announcement in*

*Chugoku no Kanren Tekko Joho*

*August 31, 1999*

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## Market Effects of Price Stabilization

- Reduces investment risk and contributes to excessive investments
- Prevents elimination of surplus capacity through operation of the market
- Enables inefficient firms to survive and expand
- Fosters endemic dumping in open export markets

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## China Has Pursued Import Substitution Objectives in OCTG

*"The original intention to establish "Big Seamless" has been carried out. With the growth of "Big Seamless" – Tainjin Steel Pipe Co., Ltd., and the development of the domestic industry, the import volume of oil casing in the country shows a welcome annual decline, decreasing from 90 percent in 1993 to less than 20 percent now, and the rate of domestic production reaches more than 80 percent. The procurement cost of oil tube materials of domestic oil fields is also reduced, and achieves the objective of 'replacing imports with domestic production.'"*

State-owned Assets Supervision and  
Administration Commission (SASAC)  
Report on Representative State-Owned  
Enterprises in China in 2004

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## Chinese Commitment

“[China] confirmed that it had eliminated all import substitution regulations, guidances and policies and would not subject any products to import substitution measures in the future.”

U.S.-China MOU on  
Market Access (1992)

## Chinese Action

“We [the government] want OCTG manufacturers to take the lead in the domestic steel industry by making progress in import substitution.”

“State Administration of  
Metallurgical Industry”  
cited in  
*Chugoku no Tekko Kanren Joho*  
(January 28, 1999)

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## **The Chinese Government Is Asking Domestic Oil Companies to Use Chinese-Made OCTG**

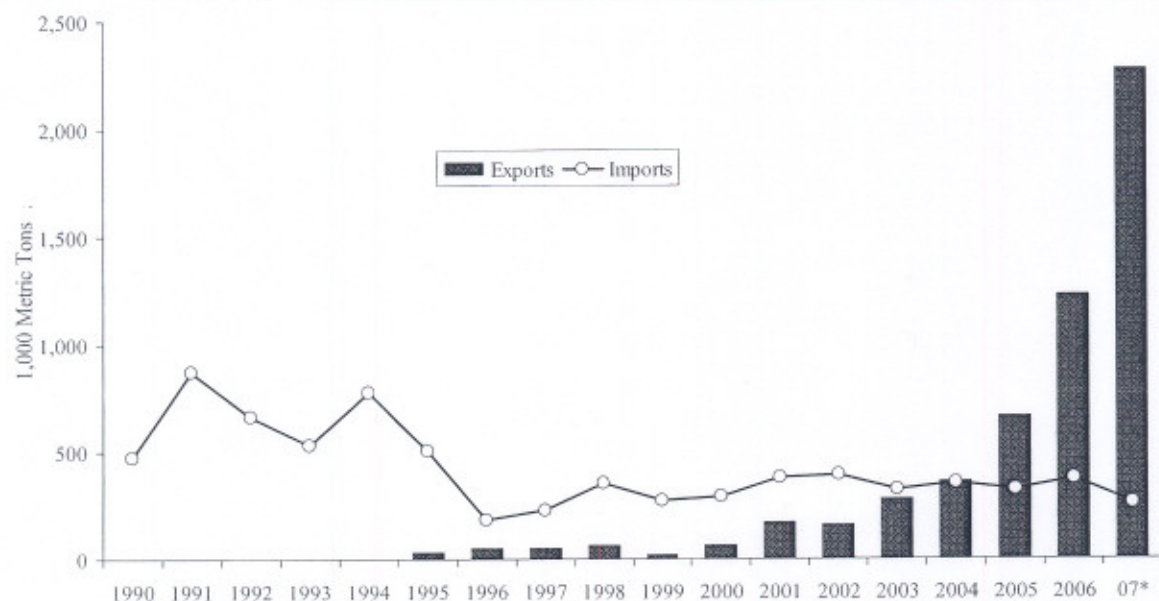
“The government has been asking oil companies to use domestic OCTG as much as possible.”

*Xinhua*  
December 20, 2001

“All the [OCTG] suppliers are domestic enterprises and all the purchased oil pipes are made in China.”

Terms of an OCTG supply agreement between  
PetroChina and four Chinese OCTG producers.  
*China Financial and Economic News*  
November 21, 2005

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\*2007 based on January - April data at annual rate.

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## China's Trade In Steel Is Regulated By Voluntary Restraint Arrangements

Country	Exports To China	Exports By China
European Union	--	2007 levels not to exceed 2006 levels. HR flat not to exceed 2 million m tons.
Korean	POSCO has periodically pledged to self-restrict exports to China of products that compete with Chinese products.	Chinese steel pipe exports to Korea in 2007 not to exceed 2006 levels. H-shapes limited to 500,000 tons.
Japan	Japanese exports to China subject to agreed limits based on periodic consultations. Japanese exports concentrate on products not available in China.	Japanese industry has requested Chinese industry to restrain steel exports to Japan (2006).
Taiwan	Exercises voluntary restraint on exports to China.	--

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